

## Influence of Managerial Accounting in the Decision Making Process

Țirău Adrian Ioan

Gînta Anca Ioana

*"1<sup>st</sup> December 1918" University of Alba Iulia*

[tirauadrianioan@gmail.com](mailto:tirauadrianioan@gmail.com)

[anca.ginta@yahoo.com](mailto:anca.ginta@yahoo.com)

Marin Pantelescu Andreea

*The Academy of Economic Studies of Bucharest*

[marindeea@yahoo.com](mailto:marindeea@yahoo.com)

### Abstract

*The article aims to put in center view the role of the managerial team in making management decisions. Managerial accounting is of high importance due to the prized place accounted by economic entities arising from the problems they have to face, that of developing and substantiating the optimal decisions and of knowing how to take advantage of new opportunities to promote their prosperity.*

**Key words:** managerial accounting, management decisions, performance, decision

**J.E.L. classification:** M41, M48, H30, H87

### 1. Introduction

The managerial accounting favours the entrepreneur behaviour, helping the manager to respond to two key questions which is the optimal method to realise the targeted objectives by using the given resources, and also how those resources have been distributed.

Studying the costs offers the opportunity to find the means the accounting and calculation operate with in order that the proposed system react in an optimal manner to the informational necessary and thus supporting the decision making process.

It is the important role of the cost calculation and managerial accounting that represents the objective of the study, this being attained by analyzing the theoretical aspects treated in the scientific research, at a national and also international level, with the aim of organizing the cost calculation.

### 2. Theoretical background

The speciality literature gives us a lot of definitions that come to our aid to make us better understand the decision term. We want to highlight the information given by the author Fătăcean Gheorghe in his book, Managerial Accounting and Management Control, where we find a definition according to which "the decision is a dynamic, rational process in which, on the basis of appropriate information, a line of action is chosen from a number of possibilities to influence the activity of the performers and to obtain a certain result."

Managerial accounting should be regarded as a stand-alone concept with an important influence on strategic decisions that clearly highlight the sources of where managerial accounting takes its information, and those designated to be held responsible should have a solid professional training and knowledge in order to select the information needed, to prepare the briefs for the managing team and be ready to test them before are made available for the entire entity.

Briciu Sorin (2010, p. 17) states that "However, we believe that a distinction should be made, so managerial accounting must include both elements of general accounting, special accounting, management accounting. A special place in managerial accounting has to be control management, which is responsible for the proper functioning of the information system needed for decision-making in an entity. This should also include internal audit, which helps the entity to achieve its objectives, performing systematic assessments and improving risk management, control and management of processes. "

### **3. Methodology**

The research is in a great measure qualitative, opinion-based. The methods used to compile this research report are: observation and analysis.

This work falls within the scope of managerial accounting research to determine the entity's performance through pricing. The main objective of the research is to calculate the costs related to the activity of the entity in order to provide a real and faithful image of the management team in order to highlight the impact on the practices and the evolution directions.

### **4. Faithful frame – managerial accounting**

Since an important part to an entity's success is the strategic decision making process, different levels should be taken into consideration, and the tracking and supervising of their implementation plays also an important role. The account has, in this regard, of the strategic decision process, a key role, because he helps the development of the strategies by providing the necessary resources for the managers. This underlines the significance of the managerial accounting in the process of this decision making.

The decision must be regarded as an essential feature of management being outlined as a defining instrument of expression. It is this capacity to make decisions at the right moment and also to implement them, that characterize a high level management team.

After a managerial decision is taken, it is transformed into a decisional act and the management team formulates a solution to the problem in the shortest time possible, according to its own capacity. Each decision type creates a different manner in which the decision making process takes place.

The process of decision making is a separate mechanism that is integrated into a company, the work being carried out with the help of specialists who have the knowledge to prepare, disseminate and implement the control of a decision, the entire activity being carried out with easy to understand instructions. This manner of acting reflects also the link between the decision and the control of how it is implemented, the latter being the responsibility of the managerial accounting.

Thus, the managerial accounting provides the management with only the primordial information necessary to understand how the processes in the entity are being developed at a certain period of time, and this piece of information helps to take the most suitable decision to improve the activity and also to later verify the way it was implemented.

But in order to make the best result from the information received from the managerial accounting, the management team needs to have the ability to interpret, analyze and issue a decision based on the knowledge they have on filtering information and acting in a manner with macroeconomic impact on the entity, even if the accountants have the responsibility for the strictly specific accountant information.

The ongoing collaboration between management and managerial accounting with an entity is supposed to achieve is to take suitable decisions and strategic concepts regarding competitive advantages.

The need for an entity to use and adopt a model for calculating and analyzing the costs of products, works and services primordial in order to find the level of sales prices that are tailored to market requirements and to achieve the projected targets. The entity's cost fluctuation analysis is an objective in itself, their organization being motivated by the more frequent influences of the management of the entities, given the opening to the market economy, a phenomenon requiring the

cost accounting information to be as complete and relevant as possible, designed to be able to intervene if prices are to be adjusted.

Along a series of factors, the premises offer the contribution to choosing how to manage accounting and to achieve its aim. Several factors are considered to determine the managing accounting and costing, among which: the entity's size and type, its organizational structure, the characteristics of the activities carried out and also the manner in which the entity is organized.

The results of a high performance decision making process is very much determined by the manner in which the management team overviews the implementation of the decision . And in order to ensure the best result of this activity, it is of primordial interes to frequently analyze and control the way these measures taken with process managers are followed. And the main objective of this check is to revise the results that have been obtained during the refference perios, to identify the causes of an eventual hinder to the attainment of the aim and also means to prevent similar hinderings form taking place. Thus, we make sure the systems and subsystems are adjusted, through verifications performed at the right moment.

The aim of the managerial accounting is to present the operations of collectin and distributing expenses, by their destination, separately on products, activities, works, orders, sections, phases, and also the settlement of the output, but also the calculation of production costs for the products manufactured, the work executed and the costs for the services provided, that also include the production in progress. This helps managerial accounting, but to prepare the information the management team needs, it is also of high importance to use the pieces of information that the financial accounting and management control department offer.

The evolution of costs is directly reflected in the performance of entities. Detailed cost control of entities can lead to a cost-saving and maximize performance mechanism. Theoretically, the process of calculating the costs involved is closely related to the nature of the decisions made by the management.

When an analysis of how the managerial accounting fulfill its aims and support managerial activity is to be carried out, it has to determine, on one hand,

The analysis of how managerial accounting fulfills its objectives and supports managerial decision-making processes within the entities has as its objective to solve a worrying ituation: on one hand, organizing the managerial accounting is not a well established process for most of the entitites and also, using the analytical information regarding to resources, potential and the position in comparison to similar entitites is made by old methods that are directed by the managers by their own will. One of the commonly applied methods is the global method that is based on the traditional idea of indirect spending analysis, adding to direct spending, without focusing on careful analysis of calculation objects.

## **5. The importance of costs in achieving the managerial objective**

The goal of managers should be to break down the cost of responsibility centers as accurately as possible.

If errors are commited on this level, the managers will have a false image on the profitability of some products and this will translate, at a macroeconomic level, into selling non profitable products. If managers are to take decisions, this involves cost analysis the safety of fairness of direct costs if this represents a higher level than indirect ones. Also, indirect costs represent a very big problem because it is not possible to quantify the resources consumed on each ocast item, and this regardless of the specific of the entity.

Managers might also have problems to separate direct and indirect costs, situation that could appear because the importance of the cost for the entity, as long as costs that are more important cannot be attributed to a responsability center. Another cause for the impediment to classify costs is an outdated or inappropriate procedure of collecting information.

The efficiency of the costs implies the use of available resources with current production conditions and also taking into consideration the conditions imposed by a crisis.

If, when taking a decision regarding the fixed costs, the managers might fail because the unitary fixed cost can change, the management team must remain focused on the total costs and consider their value rmaines unchanged even if the production volume changes.

The managers must pay attention to cost developments that can be closely observed through cost functions, where cost functions is a mathematical expression of cost changes.

In nowadays economic conditions, the way to improve the efficiency is to use spending budgets, and entities should find different ways to reduce costs and maximize on their resource consumption in order to resist competition.

A quality indicator of the cost of production is the cost of production, which occupies an essential position among the indicators that characterize the activity of an entity and which have a crucial role for the decision making process of the managers.

The first step in cost accounting is analyzing the past service cost and information, because an essential thing is to have the best perception of costs possible. The team of managers should be always informed about the cost expected to occur in the future, this value representing the fundament of the decision process for smooth future work. Also, a good forecast of costs ensures an adequate level of prices and the supply needs.

The cost control system and the managerial accounting are designed to provide pieces of information that supply the decision making process regarding planning, offering great details often, and thus underlining the importance of costs of activities or products.

## **6. The process of making decisions and how it influences the management of the entity**

This chapter aims to analyze the various cost categories used in the process of decision making and which are addressed and described in terms of the criteria of the national and international literature, with a particular relevance in synthesizing and identifying those optimal costs that can be properly managed internally. Cost information that management requires in exercising the functions it possesses often requires predictions of its future behaviors, which involves the use of mathematical models such as cost utility. It has been necessary to create a cost function because of the need for information to make decisions about the quantity of products to be manufactured, the establishment of production costs or the determination of performance parameter. What defines the decision-making process is the transition process from thought to action.

Through this act it aims to find the most rational levers for actions that will lead to maximum results with minimal effort for the management team.

The key to the management decision is the fact that these decisions are the expression of rational acts, briefly formulated in order to find a direction meant to lead the management team to achieve the defined objectives.

The decision is regarded as an essential feature of management regarded as a defining tool of expression. The qualitative level of management of an entity is evidenced by the decisions taken by them and their implementation.

The decision-making process is defined in the legal dictionary as a logical thinking activity, carried out in a certain organizational and legal framework and carried out in time by the governing bodies, with cooptation of some departments and specialists, in connection with the preparation, elaboration, realization and control a decision.

Since the managerial accounting provide the management team with the pieces of information needed to reveal the general idea of what goes on in the entity, the managers, using this information, can make permanent decision and anticipate their effects, also having a control on the effectiveness.

This view helps clarifying the areas in which managerial accounting offers support for the managers in order to make the most efficient decision.

For instance, the control tools provided by the managerial accounting are later found in the reports used by the management in order to take strategic decisions.

And also the reports used by the management, resulting from regular reviews, provide them with a degree of certainty and also the information is as accurate as possible. We consider there have to be enstated procedures for all the large processes of the entity in order to reduce errors and to simplify the work, with the need to update them whenever changes in the strategy or in the processes happen. And also, internal instructions should be provided to each member of the departments detailing the steps people should follow to comply with internal procedures. The

management control must optimize the process, aiming to control the entity , taking needed actions in order to ensure beneficial results in the future.

As long as the management team knows if and how the decisions are implemented and complied with, the internal audit verifies periodically the procedures, the way they were implemented, if the internal instructions have been followed and if the results of the processes are correct. Starting from the results of this control, improvement measures are taken.

Many factors and functions should be considered in order to ensure a good organization of managerial accounting, and these factors influence greatly the manner in which the entity is organized. Managerial accounting in an entity is described by the author Seal W Herbert I. (2001, p. 3-21), which realizes a parallel between the traditional versus the modern methods' functions.

## 7. Conclusions

Managerial accounting puts its mark on the information it transmits, influencing strategic decisions, even affecting the entity's structure and the performance appraisal system

The defining element of decision-making is the process of transition from thinking to action. Through this act, it is desirable to find the most relevant levers for actions that will lead to maximum results with minimal effort for the management team.

The key to the management decision is the fact that these decisions represent the expression of rational, briefly formulated acts in order to find a direction meant to lead the management team to achieve clearly defined objectives.

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